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August 24, 2009

Board of Directors
Kwajalein Atoll Joint Utilities Resources, Inc.:

Dear Board of Directors:

In planning and performing our audit of the financial statements of the Kwajalein Atoll Joint Utilities Resources, Inc. (KAJUR), a component unit of the Republic of the Marshall Islands, as of and for the year ended September 30, 2008, on which we have issued our report dated August 24, 2009, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered KAJUR's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KAJUR's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KAJUR's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audit, we identified, and included in the attached Appendix I, deficiencies related to KAJUR's internal control over financial reporting and other matters as of September 30, 2008 that we wish to bring to your attention.

We have also issued a separate report to KAJUR, also dated August 24, 2009, on our consideration of KAJUR's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters.

The definition of a deficiency is also set forth in the attached Appendix I.

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix II and should be read in conjunction with this report.

This report is intended solely for the information and use of KAJUR, management, others within the organization, and the Office of the Auditor-General and is not intended to be and should not be used by anyone other than these specified parties.

We will be pleased to discuss the attached comments with you and, if desired, to assist you in implementing any of the suggestions.

We wish to thank the staff and management of KAJUR for their cooperation and assistance during the course of this engagement.

Very truly yours,

Deloitte + Touche LLP

SECTION I – CONTROL DEFICIENCIES

We identified, and have included below, control deficiencies involving KAJUR's internal control over financial reporting as of September 30, 2008 that we wish to bring to your attention:

1) Cash Receipts

It is KAJUR's policy to prepare a debit meter cash collection report daily, to be signed by the preparer and be verified by a customer service supervisor. Per examination of the collection report for February 5, 2008, February 33, 2008, July 31, 2008 and August 8, 2008, the report was not verified by customer service supervisor. In addition, cash collection reports for February 20, 2008 and March 13, 2008 were not signed by the preparer or the cashier.

Furthermore, $2,469 was credited to sales for collections in various dates through GJ-0137 but lacked supporting calculations and documents.

We recommend that management establish monitoring controls pertaining to cash receipts processing and reporting to determine if established policies and procedures are consistently followed.

2) Fuel Inventory

During fiscal year 2008, incidents of fuel theft occurred. Consequently, responsible employees were suspended and additional controls (such as more frequent security guard rounds and fuel loading to occur only during the day in the presence of a supervisor) were implemented. However, the amount of fuel loss could not be determined. We recommend that management monitor implementation of the aforementioned controls. Also, management should implement review of daily fuel usage reports (including daily fuel gauging) to establish averages and trends that would assist in determining whether unusual usage occurs. Unusual usages should be timely investigated.

3) Materials and Supplies Inventory

KAJUR does not have a policy that includes freight cost in inventory valuations. Costs for item #s 15WD-40 and AH1135 did not include freight. We recommend that management establish policies and guidelines to include applicable freight costs in inventory valuations.

4) Leave Accrual

As of September 30, 2008, KAJUR recorded $6,750 and $2,478 as negative sick leave and annual leave balances, respectively. This was due to lack of an adequate system in place to ensure that employees are not charging leave hours in excess of earned balances. Also, KAJUR lacks written policies and procedures governing employee sick and annual vacation leave. We recommend that management establish formal policies and procedures over employee sick leave and annual vacation leave.

5) Lease Agreement

As of September 30, 2008, KAJUR recorded lease expense of $26,268 pertaining to rental of Ebeye office space that was applied against receivables from Marshall Islands Marine Resources Authority (MIMRA). The lease expense was based on a monthly rate of $1 per square foot or $2,189. However, there is no formal agreement between KAJUR and MIMRA documenting the rental value on the right of offset. According to an MOU between KAJUR and MIMRA, the latter is to regularly pay electricity. We recommend that an updated agreement or written memorandum pertaining to this lease be obtained. Furthermore, we recommend that management pursue its efforts to obtain lease agreements for land used by KAJUR in various locations.

SECTION II — OTHER MATTERS

Our observations concerning other matters related to operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention at this time are as follows:

1) Accounting and Internal Control Policies and Procedures Manual

KAJUR currently does not have a formal accounting policies and procedures manual. A comprehensive accounting policies and procedures manual should be readily accessible to accounting personnel to assist in ensuring that accounting policies are followed and are consistently applied. This manual would also benefit the entity when there is turnover of key personnel. Thoroughly documented policies and procedures can reduce the learning period for new employees and provide management with increased assurance that accounting policies and procedures are understood and are consistently followed.

We recommend that management consider adopting an accounting manual to govern the financial reporting process and other significant business cycles within the entity such as expenditures, revenue and payroll cycles.

2) Procurement

KAJUR does not have written policies and procedures governing its procurement processes. We recommend that KAJUR adopt formal policies and procedures that are consistent with RepMar's Procurement Code.

SECTION III – DEFINITIONS

The definition of a deficiency that is established in AU 325, *Communicating Internal Control Related Matters Identified in an Audit*, is as follows:

A *deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

APPENDIX II

MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management's Responsibility

KAJUR's management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the entity's objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.